

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

November 16, 2004

Board members present:

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

MARIE DUQUETTE, Governor's delegate

JEB SPAULDING, Vermont State Treasurer

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005) -
arrived later in the meeting

Also attending:

Cynthia Webster, Director of Retirement Services

David Minot, Director of Investment Services

Dick Charlton, Ellen Griggs, Kevin Kondry, NEPC

Mike McShane, Assistant Attorney General

Elizabeth Pearce, Deputy State Treasurer

The Chairperson, Steve Jeffrey, called the meeting to order at 8:47 a.m. on Tuesday, November 16, 2004, at the Hilltop Inn Conference Room, Airport Road, Berlin, VT.

ITEM 1: Approval of the Minutes of October 25, 2004

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to approve the minutes of October 25, 2004, as submitted.

ITEM 2: Treasurer's Report

▪ Consideration of Environmental Investment Proposal

Mr. Spaulding reviewed the August 2004 proposal memo, summarized his opinions, and queried the Board on their interest in directing NEPC to initiate an RFP for investment in environmentally managed funds from the large cap mandate.

The Board thanked Mr. Spaulding for sharing the information and requested he report back to the Board the results of action taken, if any, by the VSTRS and/or VSERS.

▪ Proxy Voting Report

Mr. Minot reviewed the November 8, 2004, Vermont Retirement Systems' Institutional Shareholder Investor proxy voting report for Q1&Q2 2004. Reported were votes in the areas of Director Elections, Compensation, Auditor Ratification, and Capital Structure.

Mr. Minot advised the Board he would follow-up with ISS and the money managers regarding report format, discrepancies, policy guidelines, etc. Mr. Minot will also research the impact to proxy voting with a transition to indexed funds.

- **Discuss Pension Investments that Support Terrorism**

Mr. Spaulding explained the request was made by Frank J. Gaffney to discuss specific retirement fund investments with alleged entities associated with the sponsorship of terrorism.

The Board thanked Mr. Spaulding for sharing the information and agreed they look forward to seeing a federal or SEC guideline, policy, or list of terrorism sponsoring companies, when developed.

- **Unitization**

Mr. Spaulding advised the Board it was his hope to bring people together to continue working towards a unitization proposal.

The Board reiterated its continued support, in concept, of unitization and would support moving forward and would also like to be involved in final discussions regarding Investment Board composition.

ITEM 3: Director of Finance & Investments Report.

- **Discuss DC Plan Reporting Options to Fidelity**

Mr. Minot reported Fidelity Investments was performing a feasibility study regarding the possibility of the current 91 participating entities with 331 participants to report directly to the DC third-party administrator. The preliminary assumption is costly, however, the proposal for direct reporting may be comparable (or better) than the current administrative costs to the plan paid through the Treasurer's Office.

ITEM 4: Approval of Membership to VMERS for January 1, 2005

- **Barre City Firefighters**

On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board unanimously voted to grant membership into the VMERS to the Barre City Firefighters/Ambulance Service to Group C, effective January 1, 2005.

Ms. Webster advised that pursuant to the Boards previous instructions, moving forward all entities are notified of wage reporting mandates.

Ms. Webster was instructed (as further clarification and file documentation) to correspond with all new entities that total compensation is reportable, have the entity's administrator acknowledge in writing they understand the mandate, and have advised employees of the requirement.

ITEM 5: Approval of the Disability Retirement for:

- John Flanigan
- Mark D. Ovitt

On a motion by Mr. Lewis seconded by Mr. Mitchell, the Board unanimously voted to approve the disability retirements for John Flanigan and Mark D. Ovitt, as recommended by the Medical Review Board.

ITEM 6: Director of Retirement Operations Report

- Legislative Initiatives

Ms. Webster distributed copies and explained draft legislative amendments to the disability statutes, 24 V.S.A §5056 & §5057, and a proposed definition of “gainful occupation”. Upon discussion the Board agreed to include a reference to “gainful occupation” in 24 V.S.A §5057(a), and amend language to “earned wages” in section §5057(d).

Mr. McShane will verify whether a correction to proposed language for 24 V.S.A §5056a (d), should be changed to read: ...Superior Court pursuant to Rule 75...Rules of Civil Procedure.

The Board also reviewed proposed legislative amendments to 24 V.S.A. §5062, not acted upon during the 2004 session. It was agreed that Mr. Spaulding would meet with Mr. Cook of VT-NEA, and Ralph Crippen of AFSCME, to discuss issues, which precipitated the original amendment referring to the definition of municipal employees. (See next page). Once clarification of the issue is obtained, the Board requested Mr. McShane to prepare an opinion regarding whether they should consider the rule making process vs. legislative amendment, if required.

Upon discussion, it was agreed by the Board not to pursue amendment to 24 V.S.A §5064 to add section (f) 1 and 2.

At 11:00 a.m. on a motion by Ms. Duquette seconded by Mr. Lewis, the Board voted to enter into executive session pursuant to Title 1 §313 to discuss potential litigation with the Board’s legal advisor. Mr. Lewis, Ms. Duquette, Mr. Jeffrey, and Mr. Spaulding voted yes. Mr. Mitchell abstained.

Mr. Mitchell recused himself from further discussion citing a potential conflict of interest, and left the meeting.

Mr. Minot, Ms. Pearce, Mr. McShane, and Ms. Holden were invited into the executive session.

At 11:10 a.m. the Board moved out of executive session.

The Board instructed Mr. McShane to draft correspondence for the Board Chair’s signature, acknowledging receipt of the October 28, 2004 letter from James J. Dunn.

Mr. Mitchell returned to the meeting.

▪ **Definition of Employer & Employee for Board Election (AG's Opinion)**

The Board reviewed Mr. McShane's November 15, 2004, opinion that determined VLCT is an instrumentality of a municipality, pursuant to 24 V.S.A. §5053(14), and deemed to be an "employer" pursuant to the definition of employer in 24 V.S.A. §5051(11). (See previous page).

ITEM 7: **Discuss/Act on Disability Retirement Process and Legal Opinion**

The Board discussed the November 15, 2004 legal opinion rendered by Mr. McShane regarding timing of applications for disability retirements.

On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board voted to adopt the recommendation of the Attorney General's Office to revert to prior practice to permit members to apply for a disability retirement prior to termination. Mr. Jeffrey, Mr. Mitchell, Mr. Spaulding, and Ms. Duquette voted yes. Mr. Lewis abstained.

ITEM 8: **Discuss DC Plan Administrative Expenses and Legal Opinion**

The Board discussed the November 15, 2004 legal opinion offered by Mr. McShane regarding the DC Plan administrative expenses. Additionally, Ms. Webster informed the Board there was currently a balance of approximately \$4,300 in the administrative expenses account resulting from the per participant 5 basis point fee, and terminated, non vested, member forfeitures. The Board was also advised of FY'04 DC expenses of \$52K, paid by the DB plan.

Ms. Pearce reviewed the income statement and balance sheet statements prepared. She was asked to verify the \$119,974 listed as plan expenses is the actual accrued expenses since inception, and to prepare a separate statement showing income and expenses exclusive of plan assets.

Mr. Jeffrey asked for the detailed budget and expense information to be distributed in preparation for the Board to act on determining a course of action at a meeting scheduled for December 9, 2004.

ITEM 6: **Director of Retirement Operations Report (CONTINUED)**

▪ **FY'06 Budget Recommendations**

Ms. Pearce reviewed the 6/30/04 balance sheet and income statement provided in the November 9, 2004 draft, and also provided an update on the status of the retirement administration-reengineering project.

On a motion by Ms. Duquette seconded by Mr. Mitchell, the Board unanimously voted to recommend to the Treasurer, the preliminary budget as proposed in the November 9, 2004 *Proposed Budget: Municipal Retirement System Base Budget (Preliminary)* spreadsheet provided.

The Board requested Ms. Pearce prepare a comprehensive and detailed breakdown of the system's income and expenses.

ITEM 9: Investment Consultant Q3/04 Report

Mr. Charlton, Mr. Kondry and Ms. Griggs reviewed the third quarter 2004 performance. They reported the market value of the fund balance at approximately \$221.7 million and a gross quarterly return of (0.0)%, an under performance of the 0.3% median public fund. The one-year return was 11.1% vs. the median public fund at 11.5%, three-year return 6.8% vs. the median public fund at 6.8% and a five-year return of 4.7% vs. 4.2%.

*At this point the Board participated in a joint meeting with the VSERS & VSTRS.
Mr. Mitchell and Mr. Lewis left during the afternoon joint meeting.*

ITEM 10: Any other business to be brought before the Board

None

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to adjourn at 4:43 p.m.

Next Meeting Dates:

The next meeting of the Board is scheduled for December 9, 2004.
The next scheduled quarterly investment meeting will be Tuesday, February 15, 2004.

Respectfully submitted,

Cynthia Webster
Secretary to the Board